

**REPORT OF THE AUDIT OF THE
BATH COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BATH COUNTY FISCAL COURT

June 30, 2006

The Auditor of Public Accounts has completed the audit of the Bath County Fiscal Court for fiscal year ended June 30, 2006.

We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information of Bath County, Kentucky.

Financial Condition:

The Fiscal Court had a cash shortage in the General, Road and Bridge, and Jail Funds totaling \$590,905. The Fiscal Court had total net assets of \$1,868,407 as of June 30, 2006. The Fiscal Court had an unrestricted net assets deficit of \$74,022 in its governmental funds as of June 30, 2006. The Fiscal Court had total debt principal outstanding as of June 30, 2006 of \$349,324 with \$168,073 due within the next year.

Report Comments:

- | | |
|---------|---|
| 2006-01 | Bath County Failed To Monitor And Manage Financial Activities In Accordance With The Budget Submitted And Approved By The Governor's Office For Local Development |
| 2006-02 | Bath County Had A Shortage In The General, Road, And Jail Funds Totaling \$590,905 |
| 2006-03 | County Judge/Executive Authorized A County Employee To Be Paid With Cash To Minimize Reported Wages And Transfer Station Funds Were Not Deposited |
| 2006-04 | Bath County Did Not Provide Accurate Financial Report To State Local Finance Officer |
| 2006-05 | Bath County Did Not Pay Invoices Timely Or Properly Record Expenditures |
| 2006-06 | County Judge/Executive Borrowed And Repaid Bank Loan For County Purposes Without Fiscal Court Approval |
| 2006-07 | Bath County's Depreciation Reserve Fund Is Underfunded \$14,136 |
| 2006-08 | The County Commingled Federal Funds For Unallowable Grant Expenditures |
| 2006-09 | Bath County Should Resolve The Federal Questioned Costs Of \$3,402 For The PRIDE Appliance Buyback Program |
| 2006-10 | Bath County Employees' Health Insurance Premiums Were Not Paid Timely |
| 2006-11 | Bath County Should Require All Employees To Maintain Timesheets And Keep Attendance Records |
| 2006-12 | Bath County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings |
| 2006-13 | The Treasurer Should Prepare An Annual Statement In Accordance With KRS 424.220 And Maintain A List of Individual Salaries |
| 2006-14 | Bath County Fiscal Court Should Implement Required Purchasing Procedures |
| 2006-15 | Bath County Fiscal Court Lacks Adequate Segregation Of Duties And Should Improve Its Internal Control System |
| 2006-16 | Bath County Paid In Excess Of Bid Prices For Road Paving And Materials |
| 2006-17 | The County Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards |

Deposits:

The Fiscal Court's deposits were insured and collateralized by bank securities or bonds.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
BATH COUNTY OFFICIALS	4
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES	39
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	44
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	47
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	51
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	67
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	55
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	56
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	59
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	63
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Walter B. ShROUT, Bath County Judge/Executive
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bath County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bath County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bath County, Kentucky, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The Bath County Fiscal Court has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of budgetary comparison information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
 Honorable Ernie Fletcher, Governor
 John R. Farris, Secretary
 Finance and Administration Cabinet
 Honorable Walter B. Shrout, Bath County Judge/Executive
 Members of the Bath County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bath County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2007, on our consideration of Bath County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

2006-01	Bath County Failed To Monitor And Manage Financial Activities In Accordance With The Budget Submitted And Approved By The Governor's Office For Local Development
2006-02	Bath County Had A Shortage In The General, Road, And Jail Funds Totaling \$590,905
2006-03	County Judge/Executive Authorized A County Employee To Be Paid With Cash To Minimize Reported Wages And Transfer Station Funds Were Not Deposited
2006-04	Bath County Did Not Provide Accurate Financial Report To State Local Finance Officer
2006-05	Bath County Did Not Pay Invoices Timely Or Properly Record Expenditures
2006-06	County Judge/Executive Borrowed And Repaid Bank Loan For County Purposes Without Fiscal Court Approval
2006-07	Bath County's Depreciation Reserve Fund Is Underfunded \$14,136
2006-08	The County Commingled Federal Funds For Unallowable Grant Expenditures
2006-09	Bath County Should Resolve The Federal Questioned Costs Of \$3,402 For The PRIDE Appliance Buyback Program
2006-10	Bath County Employees' Health Insurance Premiums Were Not Paid Timely
2006-11	Bath County Should Require All Employees To Maintain Timesheets And Keep Attendance Records
2006-12	Bath County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings
2006-13	The Treasurer Should Prepare An Annual Statement In Accordance With KRS 424.220 And Maintain A List of Individual Salaries
2006-14	Bath County Fiscal Court Should Implement Required Purchasing Procedures

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2006-15 Bath County Fiscal Court Lacks Adequate Segregation Of Duties And Should Improve
Its Internal Control System
2006-16 Bath County Paid In Excess Of Bid Prices For Road Paving And Materials
2006-17 The County Should Improve Policies And Procedures Related To The Schedule Of
Expenditures Of Federal Awards

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 8, 2007

BATH COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Walter Shrout	County Judge/Executive
Jimmy Cline	Commissioner
E.H. Snedegar	Commissioner
Billy Martin	Commissioner

Other Elected Officials:

Kim Hunt Price	County Attorney
Palmer Crouch	Jailer
Glen Thomas	County Clerk
Nancy Crouch	Circuit Court Clerk
Randall Armitage	Sheriff
Paul Goodpaster	Property Valuation Administrator
Robert Powell	Coroner

Appointed Personnel:

Myra Toy	County Treasurer
Eugene Swartz	Road Supervisor
Rickie Faudere	911 Administrator

BATH COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

BATH COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government <hr/> Governmental Activities <hr/>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 25,978
Total Current Assets	<hr/> 25,978 <hr/>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	24,352
Buildings	1,458,509
Vehicles	51,675
Equipment	289,458
Infrastructure Assets - Net of Depreciation	<hr/> 367,759 <hr/>
Total Noncurrent Assets	2,191,753
Total Assets	<hr/> 2,217,731 <hr/>
LIABILITIES	
Current Liabilities:	
Financing Obligations	137,073
Bonded Debt	<hr/> 31,000 <hr/>
Total Current Liabilities	168,073
Noncurrent Liabilities:	
Financing Obligations	115,251
Bonded Debt	<hr/> 66,000 <hr/>
Total Noncurrent Liabilities	181,251
Total Liabilities	<hr/> 349,324 <hr/>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,942,429
Unrestricted	<hr/> (74,022) <hr/>
Total Net Assets	<hr/> \$ 1,868,407 <hr/>

The accompanying notes are an integral part of the financial statements.

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BATH COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

BATH COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		Program Revenues Received		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 828,617	\$ 10,768	\$ 439,169	\$
Protection to Persons and Property	432,734		97,394	
General Health and Sanitation	340,201		37,598	592,485
Social Services	4,338			
Recreation and Culture	26,716			
Roads	556,712		655,596	273,526
Airports	11,855			
Debt Service	17,245			
Capital Projects	413,462			78,918
Total Governmental Activities	2,631,880	10,768	1,229,757	944,929

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BATH COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental
Activities

\$	(378,680)
	(335,340)
	289,882
	(4,338)
	(26,716)
	372,410
	(11,855)
	(17,245)
	(334,544)
	<u>(446,426)</u>

	247,259
	10,203
	71,060
	197,088
	17,588
	20,973
	9,386
	<u>573,557</u>
	127,131
	<u>1,741,276</u>
\$	<u>1,868,407</u>

The accompanying notes are an integral part of the financial statements.

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BATH COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

BATH COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Dispatch 911 Fund	Preston Sewer Fund	Building Commission Fund
ASSETS					
Cash and Cash Equivalents	\$	\$	\$ 5,338	\$ 2,363	\$ 5,775
Total Assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,338</u>	<u>\$ 2,363</u>	<u>\$ 5,775</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Short-Term Financing Obligation	\$ 100,000	\$	\$	\$	\$
Cash Shortage	10,427	13,708			
Total Liabilities	<u>110,427</u>	<u>13,708</u>			
FUND BALANCES					
Reserved for:					
Encumbrances (See Note 8)	533	1,991	2,761		21
Unpaid Obligations (See Note 8)	96,838	260,701			
Debt Service Fund					
Unreserved:					
General Fund	(207,798)				
Special Revenue Funds		(276,400)	2,577	2,363	
Capital Projects Fund					
Debt Service Fund					5,754
Total Fund Balances	<u>(110,427)</u>	<u>(13,708)</u>	<u>5,338</u>	<u>2,363</u>	<u>5,775</u>
Total Liabilities and Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,338</u>	<u>\$ 2,363</u>	<u>\$ 5,775</u>

Reconciliation to Statement of Changes In Net Assets:

Total Fund Balances	\$ (74,022)
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	2,903,630
Total Accumulated Depreciation	(711,877)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(152,324)
Bonded Debt	(97,000)
Net Assets Of Governmental Activities	<u>\$ 1,868,407</u>

BATH COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

PRIDE Fund	Depreciation Reserve Fund	Non- Major Funds	Total Governmental Funds
\$ 13,574	\$ 21,864	\$ 4,744	\$ 53,658
\$ 13,574	\$ 21,864	\$ 4,744	\$ 53,658
\$	\$	\$	\$ 100,000
		3,545	27,680
		3,545	127,680
			5,306
		103,162	460,701
	21,864		21,864
			(207,798)
13,574		(101,963)	(359,849)
			5,754
13,574	21,864	1,199	(74,022)
\$ 13,574	\$ 21,864	\$ 4,744	\$ 53,658

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BATH COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

BATH COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	Dispatch 911 Fund	Preston Sewer Fund
REVENUES				
Taxes	\$ 385,649	\$	\$	\$
Excess Fees	17,588			
Licenses and Permits	55,818			
Intergovernmental	179,250	1,119,857		313,267
Charges for Services	10,768			
Miscellaneous	42,119		139,961	
Interest	1,939	3,738	234	
Total Revenues	<u>693,131</u>	<u>1,123,595</u>	<u>140,195</u>	<u>313,267</u>
EXPENDITURES				
General Government	390,973			
Protection to Persons and Property	99,527		128,639	
General Health and Sanitation	27,649			
Social Services	4,338			
Recreation and Culture	21,491			
Roads		754,310		
Bus Services				
Debt Service	9,153	25,415	12,638	
Capital Projects				369,378
Administration	265,436	195,111	20,316	
Total Expenditures	<u>818,567</u>	<u>974,836</u>	<u>161,593</u>	<u>369,378</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(125,436)</u>	<u>148,759</u>	<u>(21,398)</u>	<u>(56,111)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	345,172	215,571	20,000	32,000
Transfers To Other Funds	<u>(273,075)</u>	<u>(397,918)</u>	<u></u>	<u>(32,000)</u>
Total Other Financing Sources (Uses)	<u>72,097</u>	<u>(182,347)</u>	<u>20,000</u>	<u></u>
Net Change in Fund Balances	(53,339)	(33,588)	(1,398)	(56,111)
Fund Balances - Beginning (Restated)	(57,088)	19,880	6,736	58,474
Fund Balances - Ending	<u>\$ (110,427)</u>	<u>\$ (13,708)</u>	<u>\$ 5,338</u>	<u>\$ 2,363</u>

The accompanying notes are an integral part of the financial statements.

BATH COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Building Commission Fund	PRIDE Fund	Depreciation Reserve Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$	\$ 385,649
				17,588
				55,818
66,663	279,218		137,513	2,095,768
				10,768
			1,954	184,034
604	716	1,036	1,119	9,386
<u>67,267</u>	<u>279,934</u>	<u>1,036</u>	<u>140,586</u>	<u>2,759,011</u>
				390,973
			189,676	417,842
	311,447			339,096
				4,338
			4,609	26,100
			11,712	766,022
			11,855	11,855
34,585				81,791
44,084				413,462
			5,810	486,673
<u>78,669</u>	<u>311,447</u>	<u></u>	<u>223,662</u>	<u>2,938,152</u>
<u>(11,402)</u>	<u>(31,513)</u>	<u>1,036</u>	<u>(83,076)</u>	<u>(179,141)</u>
28,421	43,000		136,300	820,464
<u>(22,796)</u>	<u>(43,000)</u>	<u>(2,425)</u>	<u>(49,250)</u>	<u>(820,464)</u>
<u>5,625</u>	<u></u>	<u>(2,425)</u>	<u>87,050</u>	<u></u>
(5,777)	(31,513)	(1,389)	3,974	(179,141)
11,552	45,087	23,253	(2,775)	105,119
<u>\$ 5,775</u>	<u>\$ 13,574</u>	<u>\$ 21,864</u>	<u>\$ 1,199</u>	<u>\$ (74,022)</u>

The accompanying notes are an integral part of the financial statements.

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BATH COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

BATH COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (179,141)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	342,603
Depreciation Expense	(100,877)

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations Principal Amount	35,546
Bond Payments	29,000

Change in Net Assets of Governmental Activities	\$ 127,131
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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	25
NOTE 2.	DEPOSITS AND INVESTMENTS	30
NOTE 3.	CAPITAL ASSETS	31
NOTE 4.	SHORT-TERM DEBT	32
NOTE 5.	LONG-TERM DEBT.....	32
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	34
NOTE 7.	INSURANCE	34
NOTE 8.	FUND BALANCE RESERVED FOR ENCUMBRANCES AND UNPAID OBLIGATIONS	34
NOTE 9.	RELATED PARTY TRANSACTIONS	35
NOTE 10.	SUBSEQUENT EVENTS	35
NOTE 11.	ADJUSTMENT TO PRIOR PERIOD	36

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Bath County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Bath County Building Commission

The Building Commission is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Building Commission's governing body consists entirely of Fiscal Court members. Therefore management must include the Building Commission as a component unit, and the Building Commission's financial activity has been blended with that of the Fiscal Court.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Bath County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Bath County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bath County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Dispatch 911 Fund – This fund accounts for the operations of the county's 911 system.

Preston Sewer Fund – This fund accounts for the receipts and expenditures of federal and state grant monies related to the construction of the sewer project.

Building Commission Fund – This fund accounts for the activities of the Building Commission, a blended component unit of the county. The Building Commission services the loan payments used to obtain a Dispatch/911 operations facility. The Building Commission also issued and now services revenue bonds for the purpose of a courthouse annex renovation and pays daily operating expenses for the courthouse annex project. The Building Commission receives lease payments from the Administrative Office of the Courts and the Gateway Area Development District for office space. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

PRIDE Fund – This fund accounts for receipts and expenditures of federal Personal Responsibility In A Desirable Environment (PRIDE) grant monies related to the construction of the Preston Sewer Project.

Depreciation Reserve Fund – This interest-bearing fund was established as a sinking fund to protect bond holders in the event the county cannot make the required bond payment. These monies will be used to make the final debt service payment on the annex facility debt. The county is required to maintain a balance equal to the annual debt service payable on the bonds. The bond ordinance states \$36,000 should be maintained in this fund.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance (LGEA) Fund, and the Sharpsburg Development Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Dispatch 911 Fund, Preston Sewer Fund, PRIDE Fund, Sharpsburg Development Fund, and Scattered Site Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Fund:

The Building Commission Fund and Depreciation Reserve Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	5-10
Infrastructure	\$ 20,000	5-10

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" consists of purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Governor's Office for Local Development does not require the Building Commission Fund or the Depreciation Reserve Fund to be budgeted. However, the Bath County Fiscal Court has budgeted the Building Commission fund to account for bond indentures and other relevant contractual provisions requiring specific payments to and from this fund annually.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits and Investments

A. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 8,493	\$	\$	\$ 8,493
Total Capital Assets Not Being Depreciated	8,493			8,493
Capital Assets, Being Depreciated:				
Land Improvements	48,200			48,200
Buildings	1,833,256			1,833,256
Vehicles	166,000			166,000
Equipment	338,398	74,930		413,328
Infrastructure	166,680	267,673		434,353
Total Capital Assets Being Depreciated	2,552,534	342,603		2,895,137
Less Accumulated Depreciation For:				
Land Improvements	(31,725)	(616)		(32,341)
Buildings	(351,954)	(22,793)		(374,747)
Vehicles	(102,340)	(11,985)		(114,325)
Equipment	(96,645)	(27,225)		(123,870)
Infrastructure	(28,336)	(38,258)		(66,594)
Total Accumulated Depreciation	(611,000)	(100,877)		(711,877)
Total Capital Assets, Being Depreciated, Net	1,941,534	241,726		2,183,260
Governmental Activities Capital Assets, Net	\$ 1,950,027	\$ 241,726	\$ 0	\$ 2,191,753

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 25,901
Protection to Persons and Property	14,892
General Health and Sanitation	1,105
Recreation and Culture	616
Roads, Including Depreciation of General Infrastructure Assets	<u>58,363</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 100,877</u>

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Short-term Debt

On April 26, 2005, the Bath County Fiscal Court received loan proceeds in the amount of \$100,000 from Salt Lick Deposit Bank. The proceeds were used to meet payroll obligations, including health insurance and other withholdings. The promissory note was to mature on June 30, 2005. The note was renewed for fiscal year 2006. As of June 30, 2006, the principal outstanding was \$100,000.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Financing Obligations	\$ 100,000	\$	\$	\$ 100,000	\$ 100,000
Governmental Activities					
Short-term Liabilities	\$ 100,000	\$ 0	\$ 0	\$ 100,000	\$ 100,000

Note 5. Long-term Debt

A. First Mortgage Refunding Revenue Bonds, Series 1981

On January 1, 1981, the Bath County Building Commission issued \$530,000 of revenue bonds for the purpose of courthouse renovation. The bonds require that an annual interest and principal payment be made on January 1 of each year commencing January 1, 1981. The bonds will mature January 1, 2009. As of June 30, 2006, the principal amount outstanding was \$97,000. Future bond principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 31,000	\$ 4,850
2008	32,000	3,300
2009	34,000	1,700
Totals	\$ 97,000	\$ 9,850

B. Financing Obligation – Voting Machines

On September 29, 1997, the Bath County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase voting machines. The agreement requires 120 monthly payments at a variable interest rate to be paid in full on October 29, 2007. As of June 30, 2006, the principal amount outstanding was \$7,037. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 5,244	\$ 138
2008	1,793	11
Totals	\$ 7,037	\$ 149

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

C. Financing Obligation – Caterpillar Grader

On March 1, 2003, Bath County entered into a lease agreement with the Caterpillar Financial Services Corporation to lease a Caterpillar Motor Grader for \$134,702. The agreement requires 72 monthly payments at a 4% interest rate to be paid in full on February 28, 2009. As of June 30, 2006, the principal amount outstanding was \$63,753. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 23,115	\$ 2,090
2008	24,057	1,148
2009	16,581	224
Totals	<u>\$ 63,753</u>	<u>\$ 3,462</u>

D. Financing Obligation – Emergency Response Equipment

On March 31, 2004, the Bath County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase emergency response equipment. The agreement requires 120 monthly payments at a variable interest rate to be paid in full on April 20, 2014. As of June 30, 2006, the principal amount outstanding was \$81,534. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 8,714	\$ 3,292
2008	9,161	2,918
2009	9,632	2,519
2010	10,125	2,102
2011	10,647	1,514
2012-2014	33,255	2,106
Totals	<u>\$ 81,534</u>	<u>\$ 14,451</u>

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 126,000	\$	\$ 29,000	\$ 97,000	\$ 31,000
Financing Obligations	<u>187,870</u>		<u>35,546</u>	<u>152,324</u>	<u>37,073</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 313,870</u>	<u>\$ 0</u>	<u>\$ 64,546</u>	<u>\$ 249,324</u>	<u>\$ 68,073</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer, public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2006, Bath County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Fund Balance Reserved For Encumbrances And Unpaid Obligations

In order to reflect the true financial position at June 30, 2006, outstanding unpaid obligations and encumbrances have been included in the financial statements as reservations of fund balances. Unpaid obligations represent outstanding bills that have not been paid for more than 30 days. Encumbrances represent bills that were an obligation to year-end cash balances and were paid within 30 days.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 9. Related Party Transactions

A. Mowing

In FY 2006, the Fiscal Court paid \$5,000 to the brother of a County Commissioner.

B. Appliance Buy Back

In FY 2006, the county participated in a PRIDE grant appliance buy back program. The Fiscal Court disbursed \$1,755 to county employees and their families.

Note 10. Subsequent Events

A. Occupational Tax

On June 29, 2006 the fiscal court approved an Occupational Tax Ordinance of 1½ percent to increase revenues in order for the county to operate on a balanced budget as required by the Governor's Office for Local Development.

B. Personal Loans

During our review of subsequent events, we noted the Bath County Judge/Executive obtained two personal loans totaling \$63,641 without Fiscal Court approval. Loan proceeds totaling \$30,000 and \$33,641 were deposited into the County's General Fund on July 27, 2006 and August 1, 2006, respectively. On August 15, 2006, the County paid off the two bank notes in full.

C. Two County Officials Indicted

On October 5, 2006, the person who was elected Bath County Attorney in the November 2006 general election, was indicted by a federal grand jury in the United States District Court for the Eastern District of Kentucky, and charged with payment for voting and aiding and abetting, perjury, and obstruction of justice, U. S. v. Donald "Champ" Maze, Case No. 06-CR-155-JMH. On November 3, 2006, the Bath County Judge/Executive was indicted by a federal grand jury in the United States District Court for the Eastern District of Kentucky, and charged with conspiracy, making a false statement to a federal agent, and obstruction of justice, U. S. v. Walter Bascom Shrout, Case No. 06-CR-175-JMH. These criminal matters are currently pending final resolution.

D. Civil Action Filed Against Fiscal Court

On December 13, 2006, the County Attorney disclosed to auditors that The Walker Company of Kentucky, Inc. filed Civil Action No. 06-CI-90167 against the County seeking payment under a contract in the amount of \$197,414 plus interest. . The County Attorney further disclosed that the County paid \$100,000 toward this debt in August 2006. Negotiations have fallen through and the Walker Company has filed a motion for Summary Judgment with the Court.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 9. Related Party Transactions (Continued)

E. Known Outstanding Obligations As Of January 3, 2007

As of January 3, 2007 the County has the following balances due:

Paving	\$ 79,271
Housing Prisoners	185,762
Bank Loan	100,000
Professional Services	49,267
Depreciation Reserve Fund	25,825
Bath County Sanitation District	20,456
	<u>\$ 460,581</u>

F. Transfer Station

On September 5, 2006, the county took over operations of a garbage transfer station.

Note 11. Adjustment to Prior Period

A. Capital Assets

In the prior year, the County had \$85,000 ending balance for construction in progress for the Preston Sewer Project. The ownership of this asset is now with the Bath County Sanitation District. The balance has been removed from this fiscal year's beginning balance.

B. Fund Balance

In the prior year, the General Fund had an ending cash balance of \$48,132. This fund included the General Fund Account, Preston Sewer Account, PRIDE Account, and an immaterial revolving payroll account. For FY2006, the County has made the Preston Sewer Account and the PRIDE Account separate funds, thus we have restated the General Fund beginning cash balance. The result of creating these new funds has shown the General Fund to have a deficit balance of \$57,088, excluding the immaterial payroll revolving account of \$1,659.

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

GENERAL FUND					
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
Taxes	\$ 355,739	\$ 355,739	\$ 385,649	\$ 29,910	
In Lieu Tax Payments			17,588	17,588	
Excess Fees	35,000	35,000		(35,000)	
Licenses and Permits	70,000	70,000	55,818	(14,182)	
Intergovernmental Revenue	159,100	234,030	179,250	(54,780)	
Charges for Services	20,000	20,000	10,768	(9,232)	
Miscellaneous	25,100	25,100	42,119	17,019	
Interest	2,500	2,500	1,939	(561)	
Total Revenues	667,439	742,369	693,131	(49,238)	
EXPENDITURES					
General Government	302,584	377,514	390,973	(13,459)	
Protection to Persons and Property	102,950	102,950	99,527	3,423	
General Health and Sanitation	49,200	49,200	27,649	21,551	
Social Services	1,800	1,800	4,338	(2,538)	
Recreation and Culture	16,500	16,500	21,491	(4,991)	
Debt Service	105,465	105,465	9,153	96,312	
Administration	204,619	204,619	265,436	(60,817)	
Total Expenditures	783,118	858,048	818,567	39,481	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(115,679)	(115,679)	(125,436)	(9,757)	
OTHER FINANCING SOURCES (USES)					
Transfers From Other Funds	209,998	209,998	345,172	135,174	
Transfers To Other Funds	(117,354)	(117,354)	(273,075)	(155,721)	
Total Other Financing Sources (Uses)	92,644	92,644	72,097	(20,547)	
Net Changes in Fund Balance	(23,035)	(23,035)	(53,339)	(30,304)	
Fund Balance - Beginning	23,035	23,035	(57,088)	(80,123)	
Fund Balance - Ending	\$ 0	\$ 0	\$ (110,427)	\$ (110,427)	

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,178,618	\$ 1,178,618	\$ 1,119,857	\$ (58,761)
Miscellaneous	10,000	10,000		(10,000)
Interest	2,500	2,500	3,738	1,238
Total Revenues	<u>1,191,118</u>	<u>1,191,118</u>	<u>1,123,595</u>	<u>(67,523)</u>
EXPENDITURES				
Roads	708,560	708,560	754,310	(45,750)
Debt Service			25,415	(25,415)
Administration	244,313	244,313	195,111	49,202
Total Expenditures	<u>952,873</u>	<u>952,873</u>	<u>974,836</u>	<u>(21,963)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>238,245</u>	<u>238,245</u>	<u>148,759</u>	<u>(89,486)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			215,571	215,571
Transfers To Other Funds	(288,245)	(288,245)	(397,918)	(109,673)
Total Other Financing Sources (Uses)	<u>(288,245)</u>	<u>(288,245)</u>	<u>(182,347)</u>	<u>105,898</u>
Net Changes in Fund Balance	(50,000)	(50,000)	(33,588)	16,412
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>19,880</u>	<u>(30,120)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (13,708)</u>	<u>\$ (13,708)</u>

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

DISPATCH 911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ 137,000	\$ 137,000	\$ 139,961	\$ 2,961
Interest	500	500	234	(266)
Total Revenues	137,500	137,500	140,195	2,695
EXPENDITURES				
Protection to Persons and Property	125,000	125,000	128,639	(3,639)
Debt Service	15,600	15,600	12,638	2,962
Administration	18,700	18,700	20,316	(1,616)
Total Expenditures	159,300	159,300	161,593	(2,293)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(21,800)	(21,800)	(21,398)	402
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			20,000	20,000
Total Other Financing Sources (Uses)			20,000	20,000
Net Changes in Fund Balance	(21,800)	(21,800)	(1,398)	20,402
Fund Balance - Beginning	21,800	21,800	6,736	(15,064)
Fund Balance - Ending	\$ 0	\$ 0	\$ 5,338	\$ 5,338

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

PRESTON SEWER FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 550,000	\$ 550,000	\$ 313,267	\$ (236,733)
Total Revenues	550,000	550,000	313,267	(236,733)
EXPENDITURES				
Capital Projects	550,000	550,000	369,378	180,622
Total Expenditures	550,000	550,000	369,378	180,622
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			(56,111)	(56,111)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			32,000	32,000
Transfers To Other Funds			(32,000)	(32,000)
Total Other Financing Sources (Uses)				
Net Changes in Fund Balance			(56,111)	(56,111)
Fund Balance - Beginning			58,474	58,474
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,363	\$ 2,363

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	PRIDE ACCOUNT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 40,000	\$ 40,000	\$ 279,218	\$ 239,218
Interest			716	716
Total Revenues	40,000	40,000	279,934	239,934
EXPENDITURES				
General Health and Sanitation	40,000	40,000	311,447	(271,447)
Administration	44,000	44,000		44,000
Total Expenditures	84,000	84,000	311,447	(227,447)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(44,000)	(44,000)	(31,513)	12,487
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			43,000	43,000
Transfers To Other Funds			(43,000)	(43,000)
Total Other Financing Sources (Uses)				
Net Changes in Fund Balance	(44,000)	(44,000)	(31,513)	12,487
Fund Balance - Beginning	44,000	44,000	45,087	1,087
Fund Balance - Ending	\$ 0	\$ 0	\$ 13,574	\$ 13,574

BATH COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**BATH COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

BATH COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Jail Fund	LGEA Fund	Sharpsburg Development Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$	\$ 1,839	\$ 2,905	\$ 4,744
Total Assets	<u>\$ 0</u>	<u>\$ 1,839</u>	<u>\$ 2,905</u>	<u>\$ 4,744</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Cash Shortage	\$ 3,545	\$	\$	\$ 3,545
Total Liabilities	<u>\$ 3,545</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,545</u>
FUND BALANCES				
Reserved for:				
Unpaid Obligations	\$ 103,162			\$ 103,162
Unreserved:				
Special Revenue Funds	<u>(106,707)</u>	<u>1,839</u>	<u>2,905</u>	<u>(101,963)</u>
Total Fund Balances	<u>(3,545)</u>	<u>1,839</u>	<u>2,905</u>	<u>1,199</u>
Total Liabilities and Fund Balances	<u>\$ 0</u>	<u>\$ 1,839</u>	<u>\$ 2,905</u>	<u>\$ 4,744</u>

The notes to the financial statements are an integral part of this financial statement.

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BATH COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

BATH COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Jail Fund	LGEA Fund	Sharpsburg Development Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 78,724	\$ 51,289	\$ 7,500	\$ 137,513
Miscellaneous	1,954			1,954
Interest	437	668	14	1,119
Total Revenues	<u>81,115</u>	<u>51,957</u>	<u>7,514</u>	<u>140,586</u>
EXPENDITURES				
Protection to Persons and Property	189,676			189,676
Recreation and Culture			4,609	4,609
Roads		11,712		11,712
Bus Services		11,855		11,855
Administration	5,810			5,810
Total Expenditures	<u>195,486</u>	<u>23,567</u>	<u>4,609</u>	<u>223,662</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(114,371)</u>	<u>28,390</u>	<u>2,905</u>	<u>(83,076)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	136,300			136,300
Transfers To Other Funds	(12,500)	(36,750)		(49,250)
Total Other Financing Sources (Uses)	<u>123,800</u>	<u>(36,750)</u>		<u>87,050</u>
Net Change in Fund Balances	9,429	(8,360)	2,905	3,974
Fund Balances - Beginning	(12,974)	10,199		(2,775)
Fund Balances - Ending	<u>\$ (3,545)</u>	<u>\$ 1,839</u>	<u>\$ 2,905</u>	<u>\$ 1,199</u>

The notes to the financial statements are an integral part of this financial statement.

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BATH COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BATH COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	Pass-Through <u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Appalachian Regional Commission</u>		
Direct Program:		
Appalachian Area Development Program (CFDA # 23.002)	Not Applicable	\$ 300,000
Direct Program:		
Kentucky Flex-E Grant Program - Sharpsburg Development Fund (CFDA 23.002)	Not Applicable	4,609
<u>U.S. Department of Commerce</u>		
Passed-Through USDA Rural Development: Congressionally Identified Awards and Projects:		
Preston Sewer Project (CFDA # 11.469)	Not Available	36,300
Appliance Buyback Program (CFDA # 11.469)	Not Available	3,402
<u>U.S. Department of Justice</u>		
Direct Program:		
Section 531 Program - Preston Sewer Project (CFDA # 12.N/A)	Not Applicable	285,029
<u>U.S. Department of Homeland Security</u>		
Passed-Through Kentucky Department of Military Affairs:		
State Homeland Security Grant - Weapons of Mass Destruction 03 Part II (CFDA # 97.004)	M-03254378	54,919
		<hr/>
		<u>\$ 684,259</u>

BATH COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Bath County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Walter B. Shrout, Bath County Judge/Executive
Members of the Bath County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 8, 2007. Bath County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bath County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bath County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items: 2006-14, 2006-15, 2006-16, and 2006-17.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Bath County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items: 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, 2006-08, 2006-10, 2006-11, 2006-12, and 2006-13.

This report is intended solely for the information and use of Bath County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed
February 8, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Walter B. Shrout, Bath County Judge/Executive
Members of the Bath County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Bath County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Bath County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bath County's management. Our responsibility is to express an opinion on Bath County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bath County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bath County's compliance with those requirements.

As described in items 2006-05, 2006-08 and 2006-09 in the accompanying schedule of findings and questioned costs, Bath County Fiscal Court did not comply with some requirements regarding activities allowed or unallowed, allowable costs, and cash management that are applicable to its major programs, Appalachian Area Development Program and the Section 531 Program - Preston Sewer Project. Compliance with such requirements is necessary, in our opinion, for Bath County Fiscal Court to fully comply with requirements applicable to those programs.

In our opinion, except for the effects, if any, of the noncompliances described in the preceding paragraph, Bath County Fiscal Court complied in all material respects, with the requirements referred to above that are applicable to its two major programs: the Appalachian Area Development Program and the Section 531 Program - Preston Sewer Project.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Bath County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bath County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 8, 2007

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006

**BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Bath County, Kentucky.
2. Four reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. Thirteen instances of noncompliance material to the financial statements of Bath County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Bath County expresses a qualified opinion.
6. There are three audit findings of noncompliance relative to the major federal awards programs for Bath County reported in Part B of this schedule: 2006-05, 2006-08, and 2006-09.
7. The programs tested as major programs were: Appalachian Area Development Program and the Section 531 Program - Preston Sewer Project
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Bath County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONCOMPLIANCES:

2006-01 Bath County Failed To Monitor And Manage Financial Activities In Accordance With The Budget Submitted And Approved By The Governor's Office For Local Development

At the start of fiscal year 2006, Bath County was under financial stress. The Fiscal Court had borrowed \$100,000 from a local bank in order to pay for the County's daily operations and the Fiscal Court also had unpaid road paving projects of \$80,796 that were seven months past due. As of our report date, June 30, 2006, the loan is still outstanding and bills have still not been paid.

Considering the poor financial condition that the County was under at the start of the year, the management proceeded to increase its road expenditures by twice the amount of the prior year, mainly for road paving projects. Management proceeded with these paving projects knowing the County did not have the ability to pay for them and knowing that these projects were not in the budget submitted and approved by the Governor's Office for Local Development (GOLD). GOLD met with Bath County's management eight times in an attempt to advise them of the dire consequences for making poor financial decisions and their management practices, which were not in accordance with the approved budget plan.

These and other actions by the management have created an overwhelming financial burden on the taxpayers of Bath County. At the end of fiscal year 2006, the General Fund, Road and Bridge Fund, and the Jail Fund have a combined shortage of \$590,905. The County has \$3,406 of current year federal questioned costs and is paying back \$40,911 of federal funds from the prior year. The Fiscal Court adopted an occupational tax at the start of FY 2007 to address ongoing fiscal concerns. This tax will attempt to help the County become financially solvent again. Specific details are entailed in the comments following.

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-01 Bath County Failed To Monitor And Manage Financial Activities In Accordance With The Budget Submitted And Approved By The Governor's Office For Local Development (Continued)

County Judge/Executive Walter Shrout's Response:

Bad management does not cause the price of insurance, social security, retirement, fuel, electric, gas, rock, parts for trucks, and office supplies to inflate from 50 to 300% in past 3 years. Bad management does not cause jail costs to triple in less than 3 years. These are cost increases no one can control. The need for an occupational tax has been known by the Fiscal Court for 20 years. I'm proud to say the present court members had the backbone to pass this tax to help ease the financial burden facing our County for years. The stress is put on the fiscal court to do what it takes to improve Bath County.

Auditor's Reply:

Jail Fund expenditures increased by 4%, and General Fund expenditures increased by 13% over the prior year. General fund expenditures include insurance premiums, electric, and office supplies. The Road Fund had a 67% increase in expenditures over the prior year, which is the largest percentage increase of all expenditures. The increase in the Road Fund is mainly due to discretionary blacktop expenditures.

2006-02 Bath County Had A Shortage In The General, Road, And Jail Funds Totaling \$590,905

Bath County has a shortage in the General Fund of \$207,798, the Road Fund of \$276,400, and the Jail Fund of \$106,707 resulting in fund deficits totaling \$590,905. These fund deficits resulted from bank account cash shortages of \$27,680, an unpaid bank loan of \$100,000, liabilities of unpaid obligations not paid by June 30, 2006 of \$460,701 and encumbrances of \$2,524. KRS 68.110 states "the Fiscal Court shall not in any year expend any money in excess of the amount annually levied and collected for that year...". We recommend the Fiscal Court work with the Governor's Office for Local Development to take immediate measures to eliminate this deficit and ensure all invoices are paid.

County Judge/Executive Walter Shrout's Response:

These shortages were budgeted in 2006-2007 as prior year claims. Road fund has been repaid. General Fund has been repaid all but audits. Some insurance needs repayment and the Jail bill has had \$50,000 paid on balance.

Auditor's Reply:

It is noted in this report that \$460,581 of obligations remained unpaid as of January 3, 2007.

2006-03 County Judge/Executive Authorized A County Employee To Be Paid With Cash To Minimize Reported Wages And Transfer Station Funds Were Not Deposited

During our review of subsequent events, auditors became aware that on September 5, 2006, the Fiscal Court had taken over operations of a privately owned transfer station and that cash receipts may have been mishandled. Our testing revealed that over a two-month period, \$1,234 was missing and not accounted for by the County. Auditors discussed the missing money with the County Judge/Executive. The County Judge/Executive stated that the missing cash was used to supplement a county employee's salary with "cash" in order to keep this employee's reported wages at a minimum. He also stated that this same employee was allowed to remove and sell scrap metal and other valuables from the transfer station and keep the profits. Auditors were unable to determine a value of scrap metal sold.

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-03 County Judge/Executive Authorized A County Employee To Be Paid With Cash To Minimize Reported Wages And Transfer Station Funds Were Not Deposited
(Continued)

The IRS defines wages at Section 3121 (a) of the Internal Revenue Code to be all payments for employment, including the cash value of all remuneration (including benefits) paid in any medium other than cash. Also, federal and state laws require taxes to be withheld from employees' earnings.

We recommend the County Judge/Executive immediately stop this practice and ensure that these cash payments be included on the employee's W-2 for calendar year 2006.

Due to the high volume of cash transactions, the transfer station is extremely susceptible to fraud. To help offset some of these risks, we recommend the County implement the following procedures:

- Pre-numbered receipts should be written and maintained for all moneys collected at the transfer station.
- Receipts should be batched daily. Total collections for the day should be agreed to total receipts.
- The transfer station should keep a log of total collections for the day.
- All monies and a copy of the receipts should be given to the treasurer.
- The treasurer should review all receipts to check for missing receipts numbers and recompute receipts and moneys collected each day. On a regular basis, the treasurer and transfer station employee should agree his receipt log to her total deposited for each day to ensure all transfer station collection receipts are accounted for properly.
- Treasurer should monitor and investigate cash receipts for questionable variances in collection amounts.

We will refer this matter to the U.S. Department of Labor, Internal Revenue Service, Kentucky Department of Wage and Hour, Kentucky Retirement System, and the Kentucky Department of Revenue for review.

County Judge/Executive Walter Shrout's Response:

In Sept. 06 Allied Waste no longer wanted to operate our transfer station. I told the operator since we had no budgeted money for this position I would pay him \$6.00 per hour and 100.00 per week if the money was available, until the first of Jan 2007. If things worked out in Jan. I would put him on straight salary if not the station would be closed.

2006-04 Bath County Did Not Provide Accurate Financial Report To State Local Finance Officer

The Fiscal Court is required to submit a quarterly report to the State Local Finance Officer and to report all money received to date in all funds both budgeted and unbudgeted. The report should include by fund, all receipts to date, transfers, borrowed money, as well as all claims allowed since the beginning of the fiscal year for actual and budgeted amounts. The following was noted relating to the 4th Quarter Financial Report submitted to the State Local Finance Officer:

- \$566,007 of unpaid liabilities incurred but not properly encumbered.
- \$7,664 of unrecorded receipts – \$7,500 was federal grant monies.
- \$341,187 of unrecorded expenditures - \$137,695 was federal grant monies.
- \$95,000 of unrecorded or misclassified transfers in between funds - \$75,000 were federal grant monies.

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-04 Bath County Did Not Provide Accurate Financial Report To State Local Finance Officer (Continued)

- \$122,425 of unrecorded or misclassified transfer out between funds - \$75,000 were federal grant monies.
- \$71,841 of misclassified receipts - \$43,543 were federal grant monies.
- \$30,860 of misclassified expenditures.
- The Sharpsburg Development and Scattered Site Funds were not accounted for on the 4th Quarter Financial Report.
- The Road Cost Allocation worksheet was not prepared correctly.

Taking into account the actual expenditures and any unpaid liabilities the County incurred but did not record on the 4th Quarter Financial Report, the County exceeded budget capacity for the following funds:

- General Fund expenditure budget exceeded by \$157,357.
- Road Fund expenditure budget exceeded by \$284,654.
- Jail Fund expenditure budget exceeded by \$31,011.
- Dispatch 911 Fund expenditure budget exceeded by \$5,054.
- PRIDE Fund expenditure budget exceeded by \$267,447 - federal grant monies.
- Sharpsburg Development Fund expenditure budget exceeded by \$4,609 – these were federal grant monies not budgeted.

By not accurately completing the 4th Quarter Financial Report, the Fiscal Court could not properly monitor receipts and expenditures to manage the County appropriately. We recommend the Fiscal Court review the State Local Finance Officer's policy manual to ensure proper recording and reporting of receipts and disbursements of the County.

County Judge/Executive Walter Shrout's Response:

Due to purchase and installation of software program the software provider was to provide 1st quarter quarterly report to GOLD from information provided by the Bath Co. Treasurer.

Auditor's Reply: The Treasurer is required to prepare and submit a quarterly financial statement to the State Local Finance Officer.

2006-05 Bath County Did Not Pay Invoices Timely Or Properly Record Expenditures

Bath County did not follow guidelines set forth in The Instructional Guide For County Budget Preparation and State Local Finance Officer Policy Manual and applicable Kentucky Revised Statutes. Specifically, the following noncompliances were noted:

- Fiscal Court did not pay invoices in 30 days. At year end the Fiscal Court had \$460,701 of unpaid bills exceeding 30 days by a range of from a few days to seven months.
- Fiscal Court did not pay invoices in full. Testing noted 8 expenditures that were not paid in full.
- \$74,495 of expenditures was paid without Fiscal Court approval including four federal expenditures totaling \$69,078.
- \$203,756 of expenditures was not properly recorded due to ledgers not being accurately calculated.

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-05 Bath County Did Not Pay Invoices Timely Or Properly Record Expenditures
(Continued)

- County Judge/Executive failed to sign checks for 15 expenditures totaling \$14,304. In all cases, the secretary signed his name and initialed.
- Treasurer wrote and held checks due to a lack of available funds.
- Fiscal Court did not maintain supporting ledgers for three federal grant funds: expenditures totaled \$684,259 and receipts totaled \$600,715. The County should not rely on federal grant administrators to maintain grant records and ledgers.

KRS 65.140(2) requires expenditures to be paid in full within 30 working days of receiving vendor invoices. It continues to state that if a payment of invoices exceeds 30 days, a 1 % interest penalty should be added. In addition, KRS 68.275(1) requires checks to be signed by the county judge/executive and co-signed by the county treasurer, and KRS 68.275 (2) requires the county judge/executive to present all claims to fiscal court for review prior to payment.

County Judge/Executive Walter Shrout's Response:

Approval was made for some of these expenditures in anticipation of revenues that were not received when expected. I gave my secretary permission to sign small checks along with the treasurer in my absence. Federal grant expenditures were being sent to the administrator and there was a lack of communication between the administrator and Treasurer. This will be improved.

2006-06 County Judge/Executive Borrowed And Repaid Bank Loan For County Purposes Without Fiscal Court Approval

During our review of subsequent events, we noted the Bath County Judge/Executive obtained two personal loans from a bank totaling \$63,641 without Fiscal Court approval. Loan proceeds totaling \$30,000 and \$33,641 were deposited into the County's General fund on July 27, 2006 and August 1, 2006 respectively. According to the County Judge/Executive, these funds were used to meet payroll obligations. On August 15, 2006, the County paid off the two bank notes in full directly to the bank. We recommend the County Judge/Executive, acting as an official of the Fiscal Court, should take appropriate steps to only borrow money on behalf of the County by complying with the procedures set forth in the Governor's Office for Local Development Instructional Guide for County Budget Preparation and the State Local Finance Officer Policy Manual.

County Judge/Executive Walter Shrout's Response:

These were not private funds they were bank loans borrowed for sole purpose of helping the county in tough times. From now on I will follow the proper procedures.

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-07 Bath County's Depreciation Reserve Fund Is Underfunded \$14,136

Bath County's Depreciation Reserve Fund was underfunded by \$14,136 as of June 30, 2006 and as of the audit report date the account was underfunded by \$25,825. This fund is a separate and special account set up to protect bondholders by requiring the bond issuer to maintain a balance equal to the annual debt service payable on the bonds. The bond ordinance states \$36,000 should be maintained in the reserve account. As of June 30, 2006, the account balance was \$21,864. We recommend the Fiscal Court take appropriate measures to notify the bond holder (USDA) and return the Depreciation Reserve Fund to the required level. We also recommend the County notify the Governor's Office for Local Development (GOLD) when this matter is resolved.

County Judge/Executive Walter Shrout's Response:

This fund has been totally refunded.

Auditor's Reply:

As of the date of this report, February 8, 2007, the Depreciation Reserve Fund was underfunded \$25,825.

2006-08 The County Commingled Federal Funds For Unallowable Grant Expenditures

On July 12, 2005, the County transferred \$75,000 of federal funds from both the PRIDE grant and the Appalachian Regional Commission Grant to pay for road expenditures. KRS 64.850 states an official should not "withdraw public funds for any purpose other than that for which they were received and deposited." These funds were subsequently reimbursed on August 11, 2005. We recommend the Fiscal Court use grant funds for the intended purpose.

County Judge/Executive Walter Shrout's Response:

At the end and beginning of each fiscal year receiving money is a waiting game. Knowing money was going to be received within 4 to 6 weeks I paid the bills due and refunded those accounts.

2006-10 Bath County Employees' Health Insurance Premiums Were Not Paid Timely

Bath County did not pay health insurance premiums to provider timely. We noted \$15,905 was due for June 2006 and \$18,988 due for July 2006; these were not paid until August 7, 2006. Health insurance premiums are due on or before the first of the month in order to guarantee coverage. By not paying these premiums timely, county employees could have lost health coverage without their knowledge. We recommend the Fiscal Court take appropriate measures to ensure insurance premiums are paid timely.

County Judge/Executive Walter Shrout's Response:

I was in contact with the provider at all times and we were not in danger.

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-11 Bath County Should Require All Employees To Maintain Timesheets And Keep Attendance Records

During our testing of payroll, we noted the following weaknesses:

- Timesheets were not prepared by all employees including the County Treasurer, Road Supervisor, Solid Waste Coordinator, and Judge's Secretary.
- Timesheets did not have proper supervisory approval.
- Vacation and sick leave balances were not maintained by all employees including the County Treasurer, Road Supervisor, Solid Waste Coordinator, and Judge's Secretary.

According to KRS 337.320, "every employer shall keep a record of the hours worked each day and each week by each employee." Good internal controls dictate all timesheets have supervisory approval, and records of vacation and sick time should be properly maintained.

We recommend the Fiscal Court ensure employees maintain timesheets and proper supervisory approval be obtained. Timesheets should include any approved time off including vacation and sick time. Central oversight should be maintained for all payroll records and reconciliations should be completed each pay period reconciling earnings records and leave time to the timesheets.

County Judge/Executive Walter Shrout's Response:

All timesheets are being kept and being signed by the proper supervisor.

2006-12 Bath County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings

Fiscal Court minutes are not detailed enough to provide adequate information to the public. The Fiscal Court minutes need to accurately reflect what occurs during Fiscal Court meetings. The minutes need to include all bids submitted to Fiscal Court, a listing of all claims approved and paid, copies of all budgets and financial statements or other items presented and any other information that supports the actions taken by the Fiscal Court. Anyone looking for information about Fiscal Court meetings should be able to find it in the minutes. The absence of this supporting information prevents the public from knowing what actually occurred at the Fiscal Court meetings. We were often unable to verify information in the minutes because of the lack of detail and supporting schedules. Many of the questions we have with the minutes could have been avoided by simply attaching the amendments, budgets, ordinances, bids, or any additional paperwork that was submitted to Fiscal Court. We recommend that the Fiscal Court minutes contain any information necessary to support the actions taken by the Fiscal Court and consult with GOLD if any additional help is needed.

County Judge/Executive Walter Shrout's Response:

We have addressed this issue in the past and will address it even further in the future.

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-13 The Treasurer Should Prepare An Annual Statement In Accordance With KRS 424.220 And Maintain A List of Individual Salaries

The Treasurer's annual statement was not prepared or published. KRS 424.220 requires public officers who receive or disburse public funds to prepare an itemized, sworn statement of all funds collected, received, held, or disbursed during the fiscal year. The annual statement is required to show the total amount collected and received from each individual source, and the total amount of funds disbursed to each individual payee and the purpose for which expended (the amount of salaries paid to all non-elected county employees can be shown as lump sum expenditures by category). The annual statement must also have attached a certificate from the cashier or other proper officer from the banks in which the funds are or have been deposited during the past year showing the balance of funds. We recommend the County prepare and publish an annual statement in the future.

County Judge/Executive Walter Shrout's Response:

This matter will be taken care of at the end of this Fiscal Year.

REPORTABLE CONDITIONS:

2006-14 Bath County Fiscal Court Should Implement Required Purchasing Procedures

The Fiscal Court does not have purchasing procedures in place to meet the requirements of GOLD's State Local Finance Officer. The Road Fund is the only fund that uses a purchase order system. The following procedures need to be implemented for all funds to meet the requirements as prescribed by the State Local Finance Officer:

- Purchases shall not be made without approval by the Judge/Executive (or designee), and/or a Department Head.
- Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
- Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary appropriation transfers have been made.
- Each Department Head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the Department Head and the Judge/Executive (or designee) who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.
- Purchase orders should be matched up to cancelled invoices prior to payment.
- Once the purchase order system is in place, it should be easy to prepare a list of encumbrances and include the total on the quarterly reports.

County Judge/Executive Walter Shrout's Response:

This matter was taken care at the beginning of this Fiscal Year. 2006-2007

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

**2006-15 Bath County Fiscal Court Lacks Adequate Segregation Of Duties And Should
Improve Its Internal Control System**

We conclude the internal control structure lacks an adequate segregation of duties. There is a limited staff size that prevents adequate division of responsibilities. Furthermore, the Treasurer has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. We recommend the following controls be implemented to negate this internal control weakness:

- All expenditures, including federal grant monies, should be approved by the Fiscal Court.
- An independent person should list all receipts and agree them back to the Treasurer's receipt ledger.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. Also, an independent person should complete all bank reconciliations or review the Treasurer's bank reconciliations for accuracy and agree them to book balances for all funds, including federal monies. The person doing the bank reconciliation can document this by initialing their work.
- Receipts and disbursements ledgers should be maintained for all funds, including federal funds, and pages should be footed and agreed to the 4th Quarter Financial Report.

In addition, The Governor's Office for Local Development requires the County Judge/Executive to keep certain records and make certain reports. These include:

- Receiving all claims and preparing a master claim list to present to the fiscal court.
- Preparing all checks, maintain an appropriation ledger.
- Being responsible for the county's quarterly report.
- Reconciling appropriation ledger to the treasurer's appropriation ledger.
- Maintaining time records (vacation/sick).

County Judge/Executive Walter Shrout's Response:

These matters will be taken care of.

2006-16 Bath County Paid In Excess Of Bid Prices For Road Paving And Materials

The County appeared to have been overcharged for asphalt and gravel. We noted two invoices where the amount charged did not agree with the bid amount. The County was charged \$49 per ton for asphalt binder while the bid specified the amount to be \$45 per ton. The amount overcharged for these two invoices total \$19,863. In addition, the County was charged \$6.85 per ton for #57 gravel, while the bid specified the amount to be \$6.65 per ton. We recommend the Fiscal Court and the County Attorney review these charges to determine if any overpayments have occurred. In addition, we recommend the County review all invoices for bid specifications to determine if charges are appropriate.

County Judge/Executive Walter Shrout's Response:

Bids for rock, asphalt, and fuel say they are subject to change during the year.

Auditor's Reply:

Our review of the County's bid file noted that only the fuel bid was a short-term bid. All other bids did not note an allowance for a price change.

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-17 The County Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards

During our review of the Schedule of Expenditures of Federal Awards (SEFA), we noted errors. Specifically, we noted the following errors:

- Approximately \$32,337 of federal expenditures was not included on the schedule.
- The SEFA did not include all applicable federal grants awarded to the County government. The PRIDE – Appliance Buyback Program and the Kentucky Flex-E grant program – Sharpsburg Development funds expended were not included on the SEFA.

OMB Circular A-133, Subpart C—Auditees; §____.300 Auditee responsibilities states, “The auditee shall:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §____.310.”

The effect of these errors on the fiscal year 2006 SEFA, together with the control environment of this entity, has led the auditors to question whether all federal grant awards and expenditures were included on the SEFA.

We recommend Fiscal Court follow OMB Circular A-133 for preparation of the government’s SEFA and review for completeness. We further recommend procedures be put into place to ensure all federal grants awarded and expenditures paid are included.

County Judge/Executive Walter Shrout’s Response:

The Fiscal Court will follow OMB Circular A-133 in the future.

C. FINDINGS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

NONCOMPLIANCES:

2006-05 Bath County Did Not Pay Invoices Timely Or Properly Record Expenditures

This comment is previously stated in Section B – Findings – Financial Statement Audit. It also applies to the Major Federal Awards Program Audit. See previous section for details.

2006-08 The County Commingled Federal Funds For Unallowable Grant Expenditures

This comment is previously stated in Section B – Findings – Financial Statement Audit. It also applies to the Major Federal Awards Program Audit. See previous section for details.

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-09 Bath County Should Resolve The Federal Questioned Costs Of \$3,402 For The PRIDE Appliance Buyback Program

The County received \$3,402 of federal funds for a reimbursement grant from PRIDE (Personal Responsibility In a Desirable Environment) for an appliance buy back program. We noted the following issues:

- A \$6,000 check was written for cash in order to pay individuals cash, instead of writing checks, for appliances brought in.
- Due to a lack of documentation, the auditors could not verify that the individuals listed as being paid were actually the ones paid.
- \$1,755 of PRIDE monies were paid to County employees and their families

Good internal controls dictate that expenditures be paid by check. This provides documentation of individuals who received payment.

We recommend the County stop writing checks for cash. We also recommend all individuals be paid by a dual signature check approved by the County Judge/Executive and the County Treasurer. This will help ensure the individuals who actually bring in the appliances are the ones paid for the appliances. Furthermore, the County should have an independent person from the collection procedures count appliances to verify the amount collected by the County.

County Judge/Executive Walter Shrou's Response:

People from PRIDE instructed us on the procedure to take for this program. If procedures are not followed you will not receive the money. This program was advertised in the paper and on the radio. I was proud of the way the county employees and their families got involved in picking up and disposing of those appliances scattered over the county.

REPORTABLE CONDITIONS:

None.

D. PRIOR YEAR FINDINGS

These comments were not corrected and were repeated in the current audit. Comments may be combined with other new comments.

- | | |
|---------|---|
| 2005-3 | Bath County Fiscal Court's Depreciation Reserve Fund Is Under Funded \$12,747 |
| 2005-8 | Bath County Fiscal Court Should Maintain Time Records For All Employees |
| 2005-11 | Bath County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings |
| 2005-14 | Budget Line Items Were Overspent, Resulting In A Deficit Of \$12,974 In The Jail Fund |
| 2005-15 | The Treasurer Should Prepare And Publish An Annual Settlement In Accordance With KRS 424.220 And Maintain A List Of Individual Salaries |
| 2005-16 | Bath County Fiscal Court Should Implement Required Purchasing Procedures |
| 2005-17 | Bath County Fiscal Court Lacks Adequate Segregation Of Duties |

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BATH COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BATH COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Bath County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Walter B. ShROUT
Bath County Judge/Executive


Myra Toy
Bath County Treasurer

